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ECONOMIC INTELLIGENCE WEEKLY

23 April 1975

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Overview

Improvement in the Trade Balances of the four major developed countries with large deficits last year is evident in early 1975 trade returns. France, Italy, the United Kingdom, and the United States cut their average monthly deficit from a combined $1.7 billion in the fourth quarter of 1974 to less than $100 million in the first two months of 1975. [redacted] 25X6

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The most substantial improvement came in Italy, where a $90 million average monthly surplus was recorded in January-February in contrast to average monthly deficits of $665 million in 1974. The United States and France also registered surpluses in the first two months. [redacted] 25X6

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These trade gains are attributable to a steep drop in import volume reflecting weak final demand and to sharp drawdowns of domestic inventories. The volume of Italian imports is estimated to have fallen by more than 15% from the last quarter of 1974. Only France experienced a growth in volume of imports in January-February. Export volume of the Big Seven also fell, although not as much as import volume.

The deficit countries probably will not be able to maintain their improved trade performances for a prolonged period. Import volume will rise more rapidly than exports when economic recovery takes hold.

Note: Comments and queries regarding the ***Economic Intelligence Weekly*** are welcomed. They may be directed to [redacted] the Office of Economic Research, Code 143, Extension 7892.

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Cutbacks in Tin Exports of 15% to 20% Through 30 June were announced this past week by the International Tin Council in response to sliding tin prices. Cuts of 5,000 to 6,000 tons for this period will be allocated among the seven major producers -- Malaysia, Bolivia, Indonesia, Thailand, Australia, Nigeria, and Zaire -- who will limit shipments to a total of 26,560 tons. Spot prices on the London Metal Exchange are currently about $3.24 a pound, down 12% from late January. If the export reductions fail to stiffen prices, the Council probably will add to its buffer stocks.

Holdings of US Assets by OPEC Countries increased from $2.7 billion at yearend 1973 to an estimated $14.5 billion at yearend 1974. Five members -- Saudi Arabia, Venezuela, Nigeria, Kuwait, and Iran -- accounted for 85% of the total. New placements worldwide probably fell in the first quarter of 1975, with investment in the United States falling more than proportionally. Nevertheless, OPEC holdings of US assets will probably amount to $25 billion by yearend. (Secret No Foreign Dissem)

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OPEC INVESTMENT IN THE UNITED STATES

Holdings of US assets by OPEC countries – mostly in bank deposits and government securities – jumped from $2.7 billion at the end of 1973 to an estimated $14.5 billion by the end of 1974.* At yearend 1974, US holdings made up 20% of OPEC foreign assets, compared with 13% a year earlier. Falling demand for oil and rapid growth in OPEC imports trimmed the percentage increase in OPEC foreign assets in early 1975; growth in US assets probably fell more than proportionally. OPEC's US holdings are nevertheless likely to reach $25 billion by the end of the year.

* The US Treasury Department estimates OPEC assets in the US at some $14 billion at yearend. The difference apparently arises from conflicting reports on the disposition of Kuwaiti funds held in a Nassau account.

Growing OPEC Wealth

OPEC's current account surplus totaled $71 billion last year. A $13 billion lag in oil payments left the producers with an investable surplus of about $58 billion. At least $52 billion of this was placed in foreign official assets. Of the remainder, $2.7 billion was used to reduce liabilities and to fund multilateral aid institutions set up by producers. The balance of about $3 billion is unidentified. It includes items, particularly private capital flows, that could not be specifically estimated and is affected by possible errors in estimates of balance-of-payments components. Some official capital flows may also be in this residual but the amounts are probably small.

Trend in Value of OPEC Holdings

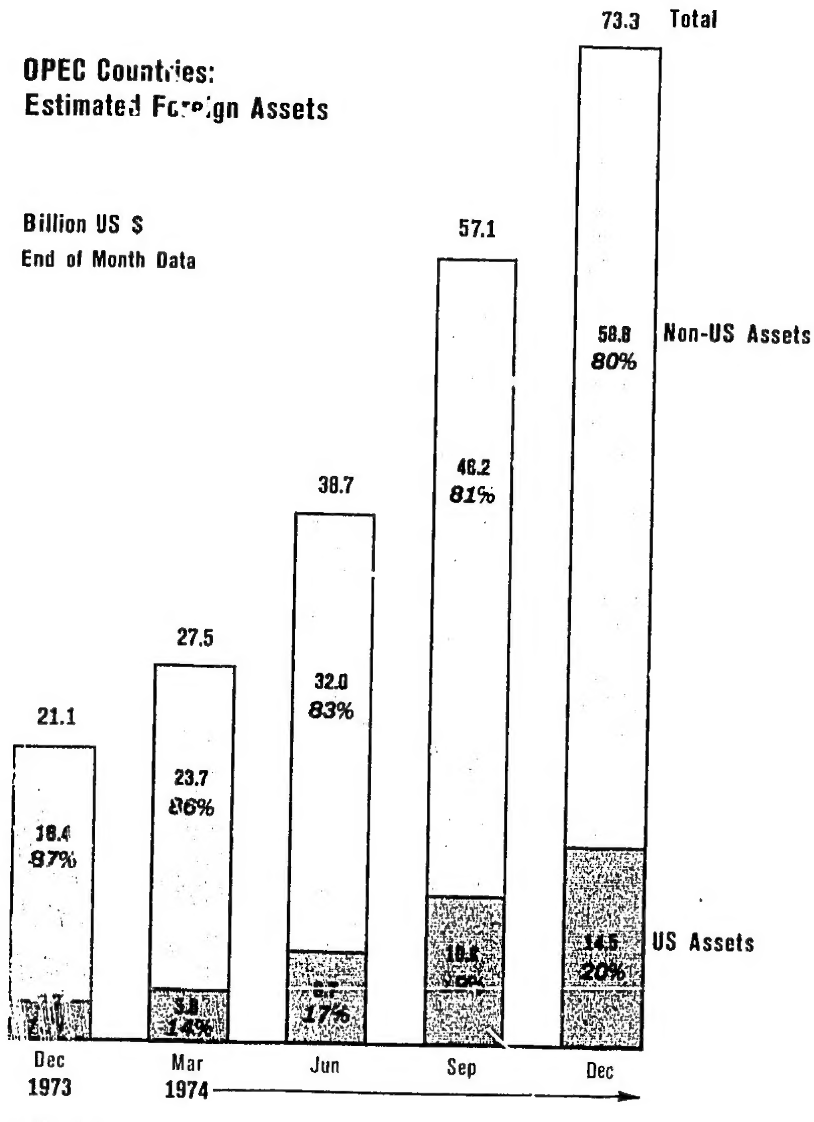
The share of OPEC foreign assets held in the United States rose throughout 1974. The portion of new investment going to the United States reached its high point of 26% in the second quarter, following the removal of the Arab oil embargo. Investment in American assets remained strong in the second half, primarily because of the growing weakness of sterling and the increasing reluctance of Eurobanks to accept additional short-term deposits from OPEC states.

OPEC Countries: New Foreign Investment
1974

Billion US $

	Total Investments	Investments in the United States	Percent of Total in the United States
1st Qtr	6.4	1.1	17
2d Qtr	11.2	2.9	26
3d Qtr	18.4	4.2	23
4th Qtr	16.2	3.6	22
Full year	52.2	11.8	23

In addition to placing almost $12 billion in the United States in 1974, OPEC countries earmarked substantial funds for future investment in the American economy. During the second half, Kuwait deposited at least $1 billion in Nassau, pending selection of suitable long-term US investments.



Composition of the Assets

At the end of 1974, bank deposits and short-term government securities accounted for just over 80% of OPEC assets in the United States. The share has declined gradually since mid-1974, largely as a result of falling short-term interest rates.

OPEC Countries: Estimated Assets in the United States, by Type 31 December 1974

	Billion US $
Total	14.5
Bank deposits	6.1
Call, demand, overnight	1.0
Other short-term	4.9
Medium- and long-term	0.2
Government securities	7.0
Short-term	5.7
Medium- and long-term	1.3
Other, including real estate and equities	1.4

Diverse Investment Patterns

Saudi Arabia, Venezuela, Nigeria, Kuwait, and Iran accounted for 85% of OPEC's US assets at yearend 1974. The compositon of their US assets differed substantially:

Saudi Arabia held about 50% in government securities, half of which were medium and long term.

Venezuela kept more than 90% in bank deposits, mostly time deposits.

Nigeria placed about 95% in short-term government securities.

Kuwait held almost 45% in the form of equities, real estate, loans, and debentures.

Iran placed 90% in short-term assets, divided about equally between government securities and bank deposits.

Among OPEC members, Indonesia and Venezuela had the largest share of their assets in the United States, 67% and 41%, respectively. Holdings by Algeria, Ecuador, and Qatar were negligible.

OPEC Countries: Estimated Foreign Assets
31 December 1974

Billion US $

	Total Foreign Assets	Assets in the United States	Percent of Total in the United States
Total	73.3	14.5	20
Algeria	1.7	Negl.	Negl.
Ecuador	0.3	Negl.	Negl.
Indonesia	1.5	1.0	67
Iran	9.5	1.4	15
Iraq	4.0	0.5	13
Kuwait	10.4	1.7	16
Libya	3.8	0.6	16
Nigeria	5.9	2.3	39
Qatar	1.7	Negl.	Negl.
Saudi Arabia	20.7	3.9	19
United Arab Emirates	6.8	0.2	3
Venezuela	7.0	2.9	41

Prospects

The flow of OPEC investment almost certainly will decline during most of 1975, as demand for oil remains weak and the countries continue to boost imports. We expect that OPEC's available surplus for 1975 as a whole will approximate $55 billion, compared with $58 billion in 1974. The United States should attract a substantial portion of these funds in spite of the recent decline in US interest rates relative to rates in Europe and the drop in the value of the dollar. Barring a serious deterioration in Arab-US political relations, OPEC states probably will invest another $10 billion in the United States in 1975, raising their US holdings to $25 billion. (Secret No Foreign Dissem) ■

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PORTUGAL: ON THE ROAD TO SOCIALISM

Recent moves have carried Portugal farther along the road to a socialized economy – the avowed objective of the Armed Forces Movement(AFM), which has dominated the country since overthrowing Prime Minister Caetano on 25 April 1974. The nationalization of banks and insurance companies in mid-March was followed last week by the announcement of other sweeping measures and a promise of more to come. In this period of revolutionary transition, Lisbon has little chance to remedy its problems of growing unemployment, rampant inflation, and deteriorating balance of payments.

A Bold Offensive

The new measures are fully in line with the program of socialization announced by the AFM in February. On 16 April the government

- nationalized electric power companies, oil firms, the steel industry, the railway system, the airline, and shipping lines – all areas in which the government already had a considerable stake;
- established limits on individual land holdings of 120 acres for irrigated land and 1,200 acres for nonirrigated land and encouraged the formation of agricultural cooperatives;
- initiated a program to provide unemployment benefits and to reduce unemployment by expanding public works and supporting ailing firms;
- froze the prices of basic foodstuffs; and
- expressed an intention to nationalize firms in mining, shipbuilding, chemicals, petrochemicals, pharmaceuticals, tobacco processing, and brewing.

Lisbon now is headed for nationalization of practically all large industrial companies. It has not yet made clear whether any compensation will be paid for the properties.

An Attack on Economic Royalty

The revolutionary government is seizing economic power from the small class in which wealth and political influence have been highly concentrated. Forty families have long controlled the corporate groupings that dominated the economy. The two largest conglomerates together have accounted for one-fifth of Portugal's corporate capital.

In the absence of an active securities market, banks have been a potent mechanism of economic control, providing both loans and equity capital for commerce and industry and naming representatives to the boards of associated firms. Insurance companies have been another locus of financial power. Although a logical step for the AFM, nationalization of these institutions was not part of the February 1975 program; rather, it was precipitated by a strike of the Leftist-led union of financial employees.

What Kind of Socialism?

The kind of socialism that Portugal will eventually settle on is still unknown. The Armed Forces Movement, though including many moderates in its ranks, is led by Leftists determined to establish "worker control of production coordinated by central planning organs." At one extreme this could mean a full-blown command economy of the Soviet type. At the other, it could mean a system in which most large firms – although nationalized – respond mainly to market forces, with the government guiding investment.

A Ministry of Planning and Economic Coordination was created last month, its scope of operation as yet undetermined. Its head and the new Ministers of Industry and Technology, Finance, and Agriculture are Communists or Communist allies. The Communist Party is preaching a line very close to that of the AFM, while maintaining apparent independence from Moscow.

Chances for a revival of private enterprise through the electoral process are small. The AFM has got the other parties to agree to its position as the dominant political institution for three to five years. Even then it would almost certainly not leave the scene voluntarily if its objectives were threatened. As Prime Minister Concalves has stated, "We cannot lose via the electoral path that which has cost the Portuguese people so much to win."

Meanwhile ... the Economy

Economic prospects are bleaker than at the time of the AFM takeover a year ago. Because of the uprooting of political and economic institutions, Portuguese GNP probably will not rise at all this year and may decline. In some nationalized firms, government-appointed managers will lack requisite skills. In agriculture, the breakup of large holdings and the slated organization of cooperatives no doubt will disrupt output. Investment, already low, will dry up completely in industries now threatened with nationalization. And potential foreign investors will be wary despite government assurances that their property will not be seized.

Labor unrest, a drop in tourist receipts, and declining emigrant remittances will hurt both the domestic economy and the balance of payments. With domestic output lagging and wages rising rapidly, much of the increase in money incomes will go for imports. Lisbon will have to draw further on the ample foreign reserves built up by Salazar and Caetano.

In spite of efforts to reduce unemployment, the jobless rate is likely to reach 10% as more soldiers return from Africa and fewer workers find jobs in the European Community. Prospects on the price front also are dim. Coming on the heels of big wage increases, the recent price freeze is not apt to prove very effective, and inflation is likely to continue around its current 25% annual rate. (Confidential)

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SOUTH VIETNAM: ECONOMIC ASSESSMENT

As the military situation continues to unravel in South Vietnam, signs of stress in the truncated economy are multiplying. For the near term, however, food, supplies, other key stocks, and foreign exchange are adequate.

Popular Reaction

The continuation of public order and fairly stable markets in basic commodities mask a sharp decline in morale. Many South Vietnamese are absorbing severe pecuniary losses to provide for escape. They are trying to unload business inventories, houses, cars, appliances, and furniture to buy gold, dollars, and preserved foods. After a decline in the second week of April the black market exchange rate last week again surged above 1,600 piasters to the dollar, or more than twice the official rate of 725. Gold now costs more than $240 an ounce.

The Saigon business community has been shaken by withdrawal of foreigners and loss of sales. A number of firms either have shut down or plan to do so. Deputy Prime Minister Nguyen Van Hao asserted that the government would step in to run private facilities closed by "irresponsible" owners, but this seems unlikely in present circumstances.

Swelling Population and Unemployment

The headlong drive of North Vietnamese forces toward South Vietnam's heartland continues to generate large numbers of refugees. In the month since ex-President Thieu's change of military course, official refugee totals have soared from 35,000 to 700,000. Thousands more are still milling on the roads or seeking shelter with family or friends.

This wave of people is exacerbating an already serious unemployment problem in the Saigon metropolitan area. Even before the latest offensive, one-fifth of the

1.2 million work force in the capital area was unemployed as a result of an acute business recession, starting in 1972. Unemployment rolls are also being swelled with laid-off industrial workers and 10,000 former pedicab operators affected by recent government restrictions. As resources of individuals and families dwindle, the unemployed will become an increasingly heavy financial burden and political threat.

Stocks of Necessities

Thus far, material needs are being adequately met. Grain stocks now on hand could readily cover another two-three months for Saigon and other key areas. Some items, such as vegetables and fish, have been scarce because of losses of production areas and interdiction of supply routes. Rice, meat, and fruit are still plentiful.

Foreign Trade and Reserves

Because of the military reverses and dislocation of business, both imports and exports have declined rapidly. War-risk insurance for ships calling at Saigon has increased fivefold in the past month, even though no ships have yet come under Communist attack. Most commercial shipping lines have either suspended operations or trimmed schedules; the largest carrier (Sealand) continues to operate. Orders for foreign industrial and other goods are being canceled; bankers are constructing credit, believing that Vietnamese importers will be unwilling or unable to pay for goods on arrival.

Even with these difficulties, the GVN is still not strapped for funds. It can supplement foreign aid in the pipeline with foreign exchange reserves large enough to cover three months' imports at 1974 rates. Of $155 million in gold and foreign exchange held outside IMF facilities, Saigon is now seeking to ship abroad about 15 tons of gold worth $20 million at official rates. This gold, plus a remaining 5 tons, if sold on the free market would bring about $115 million. (Secret No Foreign Dissem) ■

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Publications of Interest*

The Economic Impact of Soviet Military Spending
(ER IR 75-3, April 1975, For Official Use Only)

(Joint Project of the Office of Economic Research and the Office of Strategic Research)

This report analyzes the various ways in which military spending affects the Soviet economy, drawing comparisons with the United States. The principal conclusions are that costs have not been a major factor in Soviet military decisions and that defense costs are unlikely to constrain the Soviets unduly in the future. In the report, no single statistic is found to provide an adequate measure of comparative burden. By most yardsticks, the burden is not greatly different in the two countries, although Soviet military spending impacts more heavily in the high-technology area than is the case in the United States. The report concludes with a description of the varying perspectives of Soviet military leaders and economic officials in assessing the burden of defense.

Developed Countries: Short-Term Economic Prospects
(ER IR 75-11, April 1975, For Official Use Only)

This report summarizes economic developments in the major foreign developed countries in 1974 and forecasts trends in output, prices, and current account balances in 1975.

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* Copies of these publications may be ordered by calling [redacted], Code 143, Extension 7234. 25X1A

ECONOMIC INDICATORS

Prepared by

The Office of Economic Research

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Foreword

The *Economic Indicators* provide up-to-date information on changes in the domestic and external economic activities of the major non-Communist developed countries. To the extent possible, the *Economic Indicators* are updated from press ticker and Embassy reporting, so that the results are made available to the reader weeks - or sometimes months - before receipt of official statistical publications.

Comments and queries regarding the *Economic Indicators* are welcomed. They may be directed to [redacted] of the Office of Economic Research, Code 143, Extension 7402 or 351-7402. 25X1A

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